What You Should Know About Shopping for Life Insurance

Life insurance policies are available through agents and brokers, by mail, via the Internet, or through group plans.

No matter how you plan to purchase your life insurance, you should never buy from a company that is not licensed or whose policy has not been approved in the state of Washington:

> The Insurance Commissioner's authority is based primarily on authorized companies, who need her permission to operate legally in the state. An unauthorized company operating illegally in the state may simply pull up stakes and disappear when problems occur.
>
> Secondly, unauthorized policies are not protected by the Washington Life and Disability Insurance Guaranty Association (WLDIGA) in the event the unauthorized insurer cannot meet its obligations. WLDIGA is an industry group whose purpose is to mitigate losses to consumers caused by insolvent insurance companies.

You can find out whether a company is licensed in our state by calling the Office of the Insurance Commissioner's Consumer Hot Line **(1-800-562-6900)** or by looking up the company in the industry index provided on Commissioner Kreidler's web page: ***http://www.insurance.wa.gov*** Commissioner Kreidler also offers a brochure that will help you contact the solvency rating companies that provide additional information to consumers about a company's financial standing. Some ratings are provided free; other rating services may charge for that information. You can receive a copy of that brochure by calling the toll-free hot line or by visiting the web page.

How Much Should You Buy Another issue for you to resolve is how much life insurance you need. An old saying in the insurance business is that "people buy auto and homeowner insurance, but they have to be sold life insurance." In fact, life insurance does have a reputation, sometimes deserved, for pressure sales and unscrupulous sales techniques. But reputable companies and their agents should not operate this way, and they can be held accountable when they do. (For your protection, you should report any suspicious or unfair treatment to the Office of the Insurance Commissioner via the consumer toll-free hot line.)

You should never feel pressured to buy more insurance than you want, and ONLY YOU can determine the amount of life insurance you need. Consumer advocates recommend most people consider an amount four or five times their annual income. But in fact, you need to look carefully at your individual circumstances. Life insurance's true value is leaving your loved ones protected after your death. What costs and difficulties will your family have to deal with? What is your true income, beyond salary? These are questions that require careful thought and perhaps a frank discussion with your beneficiaries.

The Facts of

Here are other good shopping tips to remember:

- Research your purchase carefully to make sure it is what you want. But once you decide to buy life insurance, do not postpone your purchase any longer than necessary. Remember: The longer you wait, the higher your premium will be.

- At any time and no later than the time the policy is handed to you, the company must provide a buyer's guide and a policy summary. If you do not receive them, ask your agent or broker about them immediately.

- Set the goals you want. Then, shop around. The cost of insurance varies from company to company — as do services, standards and policy provisions. A good agent or broker should help you find a balance between your insurance needs and your pocketbook.

THE "FREE LOOK" RULE Any new life insurance policy issued in Washington state has a 10-day "free look" provision. This means that, if you are not completely satisfied, you may return the new policy within 10 days after you received it. To return it, you may mail it to the company's home office or give it back to the agent who sold it to you. If you return it, get a dated receipt from the post office or the agent. The insurer must return your premium within 30 days from the date you returned the policy. If it keeps your money longer, it becomes liable for a 10 percent penalty, payable to you.

Here are different methods of buying life insurance.
Use the one that fits you:

MAIL ORDER A few insurance companies solicit through the mail. The prospective buyer mails a completed application directly to the company. Since the company usually does not have an agent in your home town, you won't receive the benefit of an agent's advice about your insurance problems or questions. There also will not be much help for your beneficiary when he or she needs to file a claim.

GROUP PLANS In Washington, group life insurance must by law be "convertible" to permanent insurance coverage if the group life policy terminates. However, depending upon the group provisions, you still could lose part of your coverage when you leave the group and convert your policy. Premiums are higher for this "converted" insurance because they are based on a permanent coverage plan starting at your age when conversion occurs. If you are in impaired health, this higher premium may still be a good deal. But if your health is good, you probably should shop the market for standard coverages before agreeing to convert your old policy.

THE INTERNET A growing number of insurance companies are expanding their marketing operations on the Internet, and some have begun to sell policies over the web. The Internet poses some additional problems and cautions for purchasers, since they may be transacting business with a carrier thousands of miles away with little or no way of quickly verifying the claims posted on the web. The position of the Office of the Insurance Commissioner is that all of the state's laws and regulations regarding insurance transactions apply to the Internet and its electronic venues. However, enforcement of Internet transactions, just like the business itself, is in a formative stage. Consumers should take a very cautious approach to doing business with insurers they do not know or whose claims practices they have not verified.

AGENTS AND BROKERS Most people purchase life insurance through an agent or broker. Agents and brokers operate differently, and consumers should understand that. Both agents and brokers benefit when their clients are happy with their purchases. But the two approach their work from much different perspectives:

> An agent represents one or more companies and is a company representative in his or her dealings with you. The agent's job is to sell you the policies of the company he or she works for, and they receive a commission on sales they make. An agent will not necessarily tell you about a better deal down the street with a company he or she doesn't represent.
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> Brokers, however, represent and work for you, the applicant. Typically, a broker's client describes the kind of coverage they want and the amount they want to spend. The broker surveys the market and brings back options for the buyer to review and choose between. Like the agent, brokers receive a commission on sales they arrange.

Choose your agent or broker carefully. It is wise to select someone who is an established business person in your community. You also should check to see how services and facilities compare with other companies and agents, here and elsewhere. You may wish to ask, "What makes you feel you're qualified to talk to us about our financial security?" Reliable salespeople should not mind verifying their credentials or reciting the qualifications that will benefit their clients in the selection of insurance.

After selecting an agent or broker, do not hesitate to bring him or her your insurance problems and questions. Brokers and agents earn a commission on your business and should do more than just sell you a policy. They should advise you, answer your questions, help you update your insurance coverage, and help you or your beneficiary when you have a claim.

Finally, remember that your agent or broker should be expected to help you or your beneficiaries file a claim without additional compensation. You have already paid for their time and effort because their commissions were part of the insurance premiums you paid.

The Facts of

What if a Company "Rates You Up" or Turns You Down

If you are turned down by one company, you should try another. Standards vary, and not every company "rates" (i.e., estimates its risk) the same way.

Talking over a medical problem with your doctor is also wise. Treatments may improve your condition enough to meet company standards, or they may qualify you as a "special risk" at an adjusted premium. If the company uses medical information about you to arrive at its rating, it must share that information with your doctor at your request. All you have to do is ask.

Some policies are sold on a guaranteed-issue basis. These policies often have limited benefits and may be very expensive, but not always. So shop around! For the first several years the benefits may be limited to a return of the premiums you have paid and increasing over time, usually a few years, to the full face amount. You should not consider these plans unless your "up-rated" premium is more than the premium for policies sold on a guaranteed-issue basis. Even then, remember the early benefits are smaller for such a policy.

Check any group life insurance that is available to you. Some group plans do not require medical examinations or health histories.

Being Turned Down Insurance companies are part of the free enterprise system and can, within certain limits, select those they want to insure. They are not free to turn down coverage without a legitimate reason, however. When the Washington State Legislature learned that domestic violence victims were being denied insurance coverage, legislators changed state law to protect these individuals from this unfair discrimination. The Washington State Insurance Code also makes it illegal to refuse insurance to anyone on the basis of sex, marital status, race, creed, color or national origin. The same holds true for sensory, mental or physical handicaps, except when good faith statistical differences in risk have been proven. State laws administered by the Human Rights Commission have similar provisions.

Any consumer who feels he or she has not been treated fairly can complain to the Office of the Insurance Commissioner, which will investigate the problem and advocate on behalf of the consumer. About a third of all insurance complaints investigated by the Commissioner's experts result in a favorable outcome for the consumer.

What You Should Know About Your Carrier

Different companies offer different products, so don't assume you understand the benefits under any policy until you read a detailed description of what's included. There are other differences, too. Some companies work with agents you can find in the telephone book. Other companies prefer to deal directly with consumers, usually by phone. An increasing number of companies are now involved in the Internet, and some are selling coverage on the Web.

Some companies are organized differently than others. In Washington state, most life insurance is purchased from "stock" companies, which have investors and report to them. But some companies are organized as "mutual" insurers. Those companies are actually owned by their policyholders, who benefit directly from that carrier's good record or sound investments.

One of the key differences between companies for you as a consumer to consider is the financial security of the carrier. As with most businesses, the security of an insurer depends upon careful management, supervision and control.

How solid is my insurance company?

A consumer's guide
to contacting rating services

Mike Kreidler
Washington State Insurance Commissioner

Rating Your Carrier One way to check the security of an insurer is to check the rating given it by one or more of the independent rating organizations that monitor the financial strength of insurance companies. Such rating organizations include the A.M. Best Co., publisher of "Best Insurance Reports"; Moody's Investor Service, Inc.; Standard & Poor's; Duff & Phelps; and Weiss Research.

Be aware that each has its own criteria for determining financial ratings. Although all use some form of "A," "B," or "C" grade system, what is "AAA" for one might be "A+" or "A–" for another. Financial ratings by these organizations are available at some public libraries; and several offer free rating information by telephone. You also may call the toll-free Consumer Hot Line (1-800-562-6900) to obtain a special brochure with phone numbers and internet addresses.

Here are some of the different kinds of insurance companies:

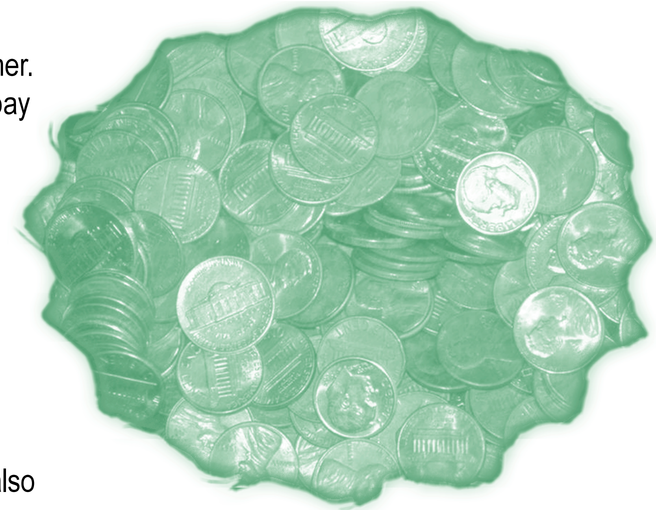
Stock Insurers A stock company is a corporation owned by private shareholders who finance its operations and elect its board of directors. The board appoints officers to operate the company.

Mutual Insurers Having no stockholders, the mutual company is operated for the owners of the insurance policies. The policyholders elect the directors of the company, and the directors, in turn, appoint company officers.

The Facts of

Fraternal Insurance Some people are eligible for life insurance from "Government" or "Fraternal" sources. The federal government maintains life insurance for veterans of World War I and of service prior to 1940 through U.S. Government Life Insurance. It also insures the lives of World War II and post-World War II veterans through the National Service Life Insurance of the Veterans Administration. "Fraternal" insurers are really just another form of mutual companies. Since they operate within a system of social "lodges," membership in the fraternal society is a prerequisite for buying fraternal insurance.

What You Should Know About Premiums



Premiums are the cost of life insurance to you, the consumer. Depending on your arrangement with the carrier, you can pay premiums on a monthly basis or less frequently. Typically, the premiums for "group life insurance" offered by many employers are deducted from one's paycheck.

Your life insurance premium is based on several factors, including your life expectancy, expenses the company expects to pay regarding your coverage, and interest the company expects to earn from investing your premiums. Health problems, your occupation, your hobbies, habits or other circumstances that may reduce your life span, may also affect your premium.

Life insurance companies differ in their approach to premiums, however. One key variation is between "participating" and "nonparticipating" premium plans.

Participating Insurance The premium charged for participating insurance policies includes an extra margin that may be needed if the company's benefit payments, reserves and operating expenses are higher than anticipated. When extra funds are not needed, the company returns them to you as "policyowner dividends." These sums are not "dividends" in the ordinary sense of the word, which refers to a dividend paid to a stockholder. In fact, the Internal Revenue Service does not even tax policyowner dividends as income, but classifies them as a "return of excess premium."

You also should note that policyholder dividends are not guaranteed. Your premium each year remains the same, but you may — or may not — receive a dividend.

Participating policies usually include several options for your use of dividends. You may take them in cash, use them to purchase additional paid-up insurance, apply them to next year's premium, or let them accumulate with the company, much like a savings account with taxable interest. You also may use them to buy a small amount of one-year term insurance — without a medical examination. Check with the company or your agent/broker on these details.

Nonparticipating Insurance Premiums for nonparticipating policies are based on the company's anticipated investment income, cost of benefit payments, expenses and profit objectives. There is no provision for policyholder dividends. Nonparticipating policies might guarantee premiums for an initial period, then provide for premium changes, subject to maximum guaranteed premiums.

The difference can be confusing, however. An "interest-sensitive whole life policy" may have annual excess interest declarations — a feature that makes a nonparticipating policy seem very much like a participating one. Be sure to ask for an explanation if your policy doesn't follow the basic rules.

Mutual life insurance companies usually sell participating policies, and most stock life insurance companies sell nonparticipating policies. It would be impossible to say one would work better than another in every case, or which of these systems would always cost less. In different circumstances, either of these systems might be the best choice. You should pick the one that works best for you.

Triple X In recent years, consumers have been hearing about a new factor in life insurance that has been dubbed "Triple X." The name comes from a model regulation drafted by the National Association of Insurance Commissioners (NAIC) to change the reserves for life insurance carriers offering guaranteed-rate term life insurance policies over longer terms. The regulation, now going through the rulemaking process in many states (including Washington), will relieve concerns that the industry could become overextended on these popular policies in the event of an economic downturn. Some life insurers currently are also using Triple X as a marketing tool, warning that it will dramatically increase the cost of term life insurance in the future. While insurance experts agree that the cost of some products will rise over the long term, most do not agree that the increase will be abrupt and dramatic. In any event, you should not allow yourself to be pressured into buying life insurance simply because of fears that it will cost more later. As always, review your individual needs and make sure the purchase fits them. Those are the factors that count for you.

High-priced Life Rule Washington state's insurance regulations include a special formula that prohibits some small death-benefits policies from being marketed here. Under the rule, which was originally contested by the insurance industry but survived an appeal to the state Supreme Court, life insurance policies may not be sold legally in Washington when the amount paid into them quickly exceeds the possible benefit. The reason is that the death benefit is so small consumers would be better off simply depositing their premium in a savings account. Many of these are so-called "burial policies" or "senior life insurance" packages that are heavily advertised in magazines and on television nationally. If you are informed by a company that its policies are legal in other states but not here, you can thank the state's high-priced life rule.

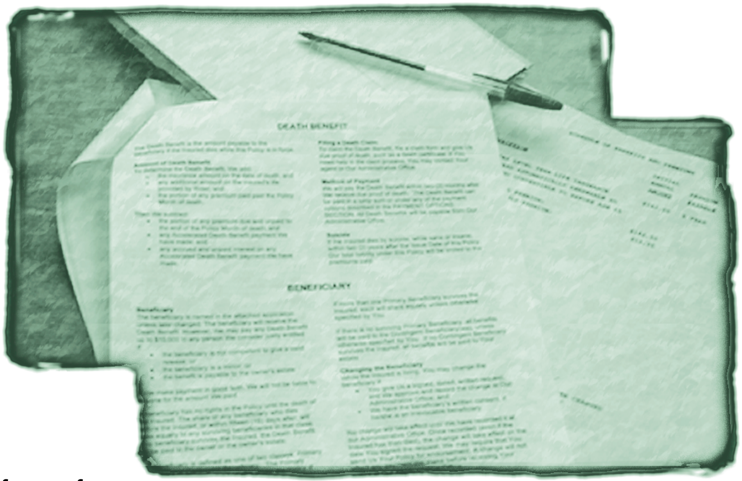
The Facts of

What You Should Know About Life Insurance Policies

A life insurance policy is a legal contract between you and the insurance company. This contract spells out the rights and obligations of you both; how much and how often you pay, the benefits you are entitled to receive, and the circumstances under which those benefits will be paid.

The best insurance policy is the one that is best for YOU. But, remember that what is best right now may not suit your circumstances 10 years from now. That means you should review your coverage regularly, even on an annual basis, to make sure your coverage is up to date and fits your current situation.

This idea of an annual review is sometimes easier to plan for than it is to carry out. Tortured legal language often makes policies very difficult to understand. Some carriers are better than others about clarifying changes taking effect at renewal time. Companies have been repeatedly urged to use “plain English,” but you still may encounter legal terms and jargon that don’t make sense. When you do, be sure to ask for an explanation. Your agent/broker works for you, and you should expect help from the agent/broker or his or her employees in deciphering your policy. In addition, Commissioner Kreidler’s insurance experts are available to answer questions and help solve problems that occur between you and your insurer.



There are two basic types of traditional life insurance; ordinary life and term insurance. All the variations are basically one or the other of these forms.

Whole Life This has been the most popular form of traditional life insurance. It is also sometimes called “ordinary life” or “straight life.” Whole life insurance provides coverage for your entire lifetime. The premium depends on your age at the time you buy and stays the same as you grow older. The cheapest rates go to those who buy it when they are young, since they will pay into it the longest.

Buying whole life insurance is, in some ways, similar to buying a home. Since it builds cash value, it builds an equity that can help you in financial emergencies. You may borrow from the insurance company against the equity in your whole life policy, or use the equity as collateral for a bank loan. If the loan is unpaid at the time of your death, the company will deduct the amount of the loan and the unpaid interest from the policy proceeds. If you wish to cash in the policy, the company will make those deductions from the cash value.

Here are two of the variations of whole life you may encounter:

Life Insurance

- Some companies offer special whole life policies designed for children or teen-agers with modified or graded premium amounts. These policies have low premiums in the first few years. Then, gradually, premiums increase, presumably as the young person becomes able to pay a larger amount. After increasing for several years, premiums then reach a guaranteed fixed level like other whole life policies.

- "Limited payment life" policies are another variation that require premiums for a specific number of years (such as 10, 20, or 30) or until you reach a certain age (such as 60 or 65). Since you pay fewer premiums, the premiums may seem higher than what you might pay for other kinds of policies. The advantage is that you accumulate cash values faster, and you are free from premiums in later years when your income will be lower. One caution, however: For the same amount you spend on limited payment life, you probably could purchase more whole life insurance protection.

Term Insurance This is the simplest kind of life insurance, and most consumer advocates say it is the first kind ordinary insurance buyers should consider. Typically, term insurance is recommended for people during their earning years, when their families would suffer the most from the loss of income.

Term life insurance gets its name because it protects you for a specific "term" – usually a year or a limited number of years — and you have to pay more for it as you get older because your risk of dying increases with age. Unlike "whole life" insurance, term insurance does not have a cash value and cannot be cashed in. Once the term ends, the policy no longer covers you. If the policy is renewable, you may buy it for another term at a rate guaranteed in the policy, without evidence of insurability. But the renewed policy will almost always cost more, and eventually you may be priced out of renewing this coverage.

Term insurance also is well suited to fill a temporary need for increased insurance. Someone leaving one job for another may have to go through an interim without group life insurance from his or her employer. Term life insurance is a very convenient purchase to bridge such a gap. Term life insurance also may be the answer for someone who wants to quickly supplement an existing whole life policy with additional coverage.

The Facts of

Here are some variations on term life insurance:

- "Convertible policies" start out as term insurance and then switch. Young people who want an estate for their new families but who are unable to afford ordinary life insurance may choose a "convertible" term insurance policy. These policies give you the option of converting your coverage to whole life, for a limited period specified in the policy, without evidence of insurability and at the insurer's then current premium rates. The premium will be relatively low at the start and then higher after you convert. When you are shopping for term insurance, look for policies that are both renewable and convertible. (Some traditional term insurance policies are not renewable, nor may they be converted.)

- If the policy has an "exchange option," the insured may exchange the policy at the end of the term for a like policy, subject to evidence of insurability, at the insurer's then current premium rates. If the policy has an exchange option, the insured must be cautious about renewal premium rates following the exchange date.

Other Insurance Options

While the traditional "term" and "whole" life insurance descriptions give you a basic grasp of coverage, today's insurance marketplace has devised a wide range of variations that you will encounter. Here are some of the other popular kinds of life insurance on the market now:

- **Group Life Insurance** Group life is typically purchased one year at a time and the insured has very little control over the conditions of coverage. Group life is purchased by an association of individuals with a common defining point, usually through some central point such as the same employer. One advantage of group life is that, although premiums are typically not guaranteed, it lets members of the group pool their risk to lower costs much below what whole life or term life policies would cost if purchased independently. In addition, an employer may subsidize part of the cost as a fringe benefit for his or her employees. Still another advantage of a group plan is that a medical examination or health history usually is not required. Some disadvantages: Renewability is typically not guaranteed and conversion options are uncompetitive. Also, the group life coverage only applies to members of the group. When an individual leaves the group – takes another job, for example, or drops his or her membership in the association that purchases the coverage – the coverage for that individual will end unless the policy is converted to private insurance at higher cost.

◆ **Endowment Policies** "Traditional" endowment insurance provides you with life insurance for a specified period of years and then matures for a defined sum of money. This sum, usually the face amount, is paid to you at the end of the period. If death occurs during the term, the face amount is paid to your beneficiaries. An endowment policy is something like a savings account. For example, you may buy a 10-year, $10,000 endowment. At the end of 10 years the company will pay you $10,000, either in one lump sum or in periodic payments. Because of the emphasis on building a maturity value, and because the benefit is paid whether you live or die, endowment policies cost more than other types of insurance. They have declined in popularity in recent years.

◆ **Joint Life Insurance** When both husband and wife or business associates need life insurance, it is often less costly to buy a joint life insurance policy instead of two or more separate policies. While this kind of insurance saves on administrative costs, the death benefit usually is paid only on the first to die. However, some companies do issue "second or last to die" policies for estate planning.

◆ **Universal Life** Some new, non-traditional types of insurance plans are available today. Two of the most common are "Universal" and "Variable" insurance. With Universal life, you may pay any premium amount up to a maximum set by the IRS at any time, while receiving competitive interest earnings. The insurance benefits and premium payments, however, are not guaranteed beyond certain limits. This can be misleading, so be sure you understand your policy's terms.

◆ **Variable Life** The death benefit and cash values of "variable" life insurance both vary according to increases or decreases in a portfolio of common stock, bonds, or other investments upon which the policy is based. This is another product where the company agrees to share the risk with the policyholder in return for possible improved benefits.

◆ **Vanishing Premiums** This is an arrangement in which you start out paying a large payment for the first several years of your policy with the possibility of no payments later on. Of course, the premiums don't really "vanish." They continue to be paid through deductions from the policy's accrued value that results from interest earned on the large payments in the early years. Consumers should be cautious with these purchases, because there usually is no guarantee of vanishing premiums. If the economy weakens or interest rates plunge, earnings from interest may not match the projections used to construct the policy. When that happens, you not only may have to keep paying, but the size of your payments may even increase. Read the contract carefully and review it on an annual basis.

- **Family Insurance** This is basically "whole life" insurance with term riders. The name is basically a sales tool, so do not be misled.

- **Accelerated Payment** People suffering from serious illnesses such as the AIDS virus often find that their life insurance is a valuable asset, and may even be marketable at a discount to special investors through "viatical settlement companies." Recognizing this, the state of Washington has created an additional mechanism, called "accelerated payment," that allows life insurers to pay off a life-insurance benefit prior to death in cases of serious, terminal illness. (For more information on this and viaticals, please refer to the "Death Claims" section of this booklet on Page 17.)

Optional Policy Benefits:

- **Waiver of Premium** If you become seriously ill or injured and cannot work, you may not be able to pay your premium. A "waiver of premium" benefit makes it unnecessary for you to pay premiums as long as you remain disabled according to the definition of disability found in your policy. You must remain disabled at least six months in order to collect this modest disability income benefit. This life insurance extra usually can be added to your policy for only a few cents more per month per thousand dollars of insurance coverage.

- **Accidental Death Benefit**
  This life insurance "extra" is also known as "double indemnity," "triple indemnity" or "additional indemnity." If an accident causes your death, this life insurance extra allows your beneficiaries to receive double, triple or even more of your policy's face value.

What You Should Know About Annuities

The primary purpose of traditional life insurance is to provide for the financial security of your survivors upon your death. Annuities are also life insurance, but they serve a different purpose. They are typically designed to provide the purchaser with a regular income for a specified period of time or for as long as he or she lives. Only secondarily — if at all — are there provisions for the benefit of survivors.

Annuities may be "immediate" in that you start to receive benefits right away, or "deferred." Benefits from a deferred annuity would begin at some future time, such as retirement or a specific age, as designated by the purchaser.

You also can buy "fixed" annuities or "variable" annuities. Fixed annuities provide fixed benefits as declared in advance by the insurance company, independently of the company's actual investment experience. Variable annuities are securities, whose benefits vary to reflect the investment experience of the separate accounts that the annuity owner selects. These separate accounts could be stocks, bonds, etc. While fixed annuities are protected by the Washington Life and Disability Insurance Guaranty Association, variable annuities are not.

Many businesses included group annuities among employee benefits, with payments beginning upon retirement. State lotteries, which pay off "million-dollar winners" with large annual payments are also annuity purchasers. Annuities may be bought by individuals, either on an installment plan or with a lump-sum payment. Annuities also may be used as gifts, including bequests. Many types of benefits and payment methods are offered. You should find the one that best suits your needs.

As with all other financial matters, know what you're buying. Annuity purchasers in Washington state are guaranteed a 10-day "free look," which means they have 10 days after purchase to cancel the transaction with no liability or loss (see page 3).

What You Should Know About Trading In Policies

In recent years, it has become more common for policyholders to use their traditional life insurance cash values in various financial endeavors. Some borrow the base value of their policy, taking advantage of the low interest rate charged; some are cashing their policies in and putting the cash in higher interest accounts while making other plans for their insurance needs; still others are looking into new developments in the life insurance market. For instance, they may be considering policies that include investments or variable interest options.

If you are tempted to use your life insurance coverage in these ways, or if someone recommends you follow these examples, you should be very careful as you proceed. Your individual and family situation will help you determine if any of these alternatives are for you. But consumer advocates are rarely convinced any of these options are something to recommend across-the-board. Your wisest course is often to simply hold on to the policy you have.

The Facts of

Should you decide to change your coverage, never drop your old policy until the new one has taken effect and has been delivered for your review. Remember to ask your agent for complete disclosure on any new policy you are considering buying.

If an agent or broker suggests you exchange a policy for a new one, ask for a comparison, in writing, of the new offering and the old policy before you agree to the transaction. Be aware that any replacement policy is apt to contain new clauses (including restrictions on contesting claims and coverage of suicides). Replacement policies also may include significant new surrender penalties in the event you should wish to cash them in. Older consumers in particular should be wary of trading in current policies for new ones that would require a substantial new penalty in terms of surrender.

The Washington Administrative Code generally requires that anyone trading in policies must receive a “Notice Regarding Replacement of Insurance” to help you make the best decision when contemplating replacement of an existing life insurance policy. The agent or broker should give you a completed replacement notice at the time he or she takes your application for the new insurance policy.

The “free-look” rule also applies to consumers who are exchanging one policy for another. (The “free-look” rule is explained in the Shopping for Life Insurance section of this booklet on Page 3.)

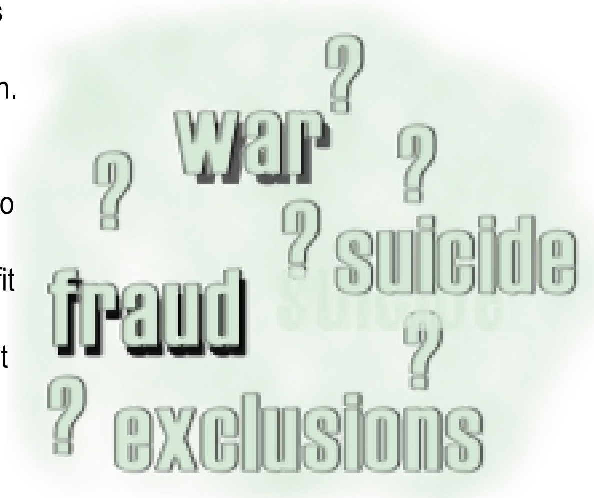
What You Should Know About Death Claims

Life insurance claims are usually handled at the home office of the company. Your beneficiary will need to notify the company and request a claim form. Your beneficiary should expect to provide the company’s claim department with a completed claim form, a certified copy of the death certificate, and the life insurance policy or affidavit of loss. Copies should be kept of documents sent to the company.

Typically, beneficiaries will get a death-claim settlement from the company once it receives “due proof” of the policyholder’s death and upon surrender of the policy. Due proof is whatever the company normally requires to establish that death occurred. Due proof may normally be furnished with a death certificate from the Office of Vital Statistics, a Coroner’s Report, an attending physician’s statement, or a hospital certificate of death.

The Facts of Life

Many "facts" about life insurance have been established in the media and are not necessarily true. For example, Washington state law requires life insurers to pay benefits in the case of suicides that occur once the policy has been in force for at least two years. "Deaths in wartime" may be specifically excluded from coverage, but do not necessarily exclude deaths that result from military action. Normally, this exclusion is only written into policies once war has been declared. Carriers also cannot refuse payment of a benefit merely because they want to investigate circumstances of death. Even when the primary beneficiary of the policy is suspected of intentionally causing the death, the benefit usually still must be paid, even if the money goes to a secondary beneficiary – or into an escrow account pending resolution of charges against a beneficiary. The insurer has agreed by contract to pay the benefit when death occurs; the manner of death may mean a different beneficiary will collect the benefit, but it does not change the fact that the benefit is owed by contract.



On the other hand, carriers may contest instances of suspected fraud, including fraudulent practices or untruths used to purchase the coverage in the first place. This fact makes it paramount that applicants always tell the truth on insurance applications.

The amount beneficiaries receive will in most instances be the face amount of the policy; although it may need to be adjusted depending on the specifics of your coverage. For example, the face amount could be reduced by any loan against the cash value of the policy and any interest due on such a loan. It also may be adjusted by adding any premium payments made in advance, or by subtracting premiums due. In the case of a participating policy, any dividend accrued should be added to the face amount of the policy.

Your agent or broker must explain any adjustments to the satisfaction of your beneficiary. Your agent or broker also should explain the settlement options that are available: Will it be paid in a lump sum or spread out in payments? Make sure your beneficiaries know what you expect from the policy and to demand an explanation of any difference they encounter.

The Facts of

Settlement Options Beneficiaries normally have several options available to them. They may elect to receive the policy proceeds in cash as soon as the claim is settled. They may elect to leave the proceeds with the company, at interest, until they decide what to do; or they may convert the proceeds into a monthly income. Usually several types of monthly income or annuities are available. One method is to draw the amount down in equal monthly payments over a fixed period of time, such as 10 years. Another is to place the proceeds in a life annuity, which will pay a monthly amount for as long as your beneficiary lives. Yet another is to provide a joint annuity — one that pays as long as either of your beneficiaries is alive.

Your policy must include a section explaining these settlement options. Most companies are very accommodating should your beneficiaries have reason to request a settlement that is not listed in your policy.

Viaticals Beginning with the AIDS epidemic, many persons suffering serious, terminal illnesses realized that one of their most valuable assets was a life insurance policy that could not be realized until after death. The viatical settlement industry was an early response to this problem. Viatical companies arrange the "sale" of life insurance benefits as an investment; typically, an investor agrees to purchase the life insurance policy of a seriously ill person by paying the person an amount less than the benefit. The seller receives badly needed cash; the buyer receives the full amount of the benefit, which will be payable once the former policyholder dies. While viaticals began as an unregulated commerce, the Office of the Insurance Commissioner today licenses and supervises viatical settlement companies and their brokers with consumer protections in place similar to those that protect life insurance purchasers.

Accelerated Benefits Another approach to this same concern was the accelerated benefit rule adopted in 1994. This rule allows life insurance carriers to insert policy language that allows for an early, discounted payment of benefit to a policyholder with a terminal illness and a short time to live. This feature is not automatically part of every policy, but usually can be added if policyholders want to have that option as their policy matures.

Some Points To Remember...

- Before you buy, complete the application for insurance fully and honestly. Before you sign, check your answers for accuracy. Omissions or untruths may void the insurance coverage after your death.

- Read your policy over carefully and be sure you understand your rights and obligations. With the exception of annuity-type policies, Washington law allows you to examine your new individual life insurance policy for 10 days after you receive it. Before you buy, ask the agent or broker if the proposed policy contains a “free-look” provision; then when you receive the policy, read it over carefully and be certain you understand it. If you return it as unacceptable within 10 days, the company must refund your entire premium. If the insurer does not return your premium within 30 days of your return of the policy, it is subject to a 10 percent penalty, payable to you. Get a dated receipt from the agent who sold you the policy.

- Shop around. Insurance rates under any of the plans listed in this booklet are apt to vary from company to company. You can pay a wide range of prices for similar insurance. Get a table of “guaranteed values” showing the most you might have to pay and the lowest values or benefits you might receive.

- Insurance agents and brokers are paid more when they engineer sales of expensive products. This is motivation for an unscrupulous person to steer you toward unnecessary expense. Be wary.

- Even though rates for younger people are lower, it may not be to your advantage to buy life insurance if you are single, with no dependents. The key question for life insurance purchasers is: Do you need to provide financial protection for other people who would suffer if you die and are no longer receiving an income?

- Pay your premium promptly. If you have term life insurance, your policy will be cancelled if you do not pay your premium on time. The consequences could be even more severe if you stop paying premiums on whole life, however. You may cost yourself benefits you otherwise would receive.

- Tax and estate laws change constantly so be sure you get current tax information regarding how your policy will be affected before you buy the insurance.

- The cash value of your policy may not begin to accumulate for three or more years after the purchase. If you surrender your policy before this time, you will get little, if any, cash back from what you have already spent.

- Life insurance is not an investment, but a protection against the loss of income.

- If you buy participating insurance, know that dividends are not guaranteed, but are paid at the discretion of the company’s directors.

- Get a receipt whenever you give money to an agent or broker.

The Facts of

Commissioner Kreidler's Top 10 Life Insurance Cautions

10. Never ignore notices from the insurance company even though your agent tells you it's a "mistake" and nothing to worry about.

9. Be careful of any life insurance plan that promises "vanishing premiums" or guarantees you a premium-free policy over a specific period.

8. Don't buy life insurance portrayed as a "pension plan" or a "retirement fund." Life insurance is NOT a pension plan.

7. Don't let yourself be pressured. You do NOT face any deadlines.

6. Never buy coverage you don't understand. It is the agent's or broker's and company's responsibility to explain your coverage in terms you can comprehend.

5. Save every piece of paper explaining your coverage and your policy. Keep them on file with your policy. (If the agent used a laptop computer, insist on a hard copy version of what you were shown.)

4. Be careful of "special opportunities" to add life insurance coverage for a nonworking spouse or children. Remember: Life insurance protects against loss of income.

3. If you are offered a chance to turn in a small policy for a larger one without paying substantially more, WATCH OUT!

2. Never sign a form that includes blank spaces, even if the agent/broker assures you they are merely a formality.

and The Number One Caution About Life Insurance is....

1. If it's too good to be true, it isn't true.

Life Insurance

This Consumer's Guide is one of a series
prepared by the Office of the Insurance Commissioner.
Any insurance consumer who needs help with an insurance problem
or who feels he or she is not being treated fairly by an insurer, please call

1-800-562-6900.

The Statewide Health Insurance Benefits Advisors (SHIBA) HelpLine is a special service of the Insurance Commissioner's Office that provides free health-insurance education, assistance and advocacy for all Washington residents, including the disabled, in hundreds of communities around the state. SHIBA HelpLine volunteers and staff assist consumers with choices and problems involving private health insurance as well as many government programs (Medicare, Medicaid, Basic Health Plan, Children's Health Insurance Program, and the Washington State Health Insurance Pool). SHIBA HelpLine volunteers also are experts in Medigap coverage, employment-related health benefits, managed care, long-term care insurance, medical billings and fraud/abuse questions. To contact the SHIBA HelpLine unit in your community, call

1-800-397-4422

You can also visit the Office of the Insurance Commissioner Web Page at
http://www.insurance.wa.gov